

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

PAUL BAICU, Individually and On Behalf of All
Others Similarly Situated,

Plaintiff,

VS.

SCHOLASTIC CORPORATION, RICHARD
ROBINSON, and MARY A. WINSTON,

Defendants.

CIVIL ACTION NO. 07-cv-08251

CLASS ACTION COMPLAINT

JURY TRIAL DEMANDED

Plaintiff, Paul Baicu ("Plaintiff"), alleges the following based upon the investigation by Plaintiff's counsel, which included, among other things, a review of the defendants' public documents, conference calls and announcements made by defendants, United States Securities and Exchange Commission ("SEC") filings, wire and press releases published by and regarding Scholastic Corporation ("Scholastic" or the "Company"), securities analysts' reports and advisories about the Company, and information readily available on the Internet, and Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION AND OVERVIEW

1. This is a federal class action on behalf of purchasers of the common stock of Scholastic between March 18, 2005 and March 23, 2006, inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

2. Scholastic is a global children's publishing, education and media company. The Company is a publisher and distributor of children's books, and a developer of educational technology products. Scholastic also creates educational and entertaining materials and products for use in school and at home, including magazines, children's reference and non-fiction materials, teacher materials, television programming, film, videos and toys.

3. On December 16, 2005, the Company announced disappointing results for the Company's second quarter 2006 (ended November 30, 2005). Despite these poor results, the Company assured investors that its management team was "implementing plans to improve performance in the second half of the year, particularly in the important fourth quarter." The Company reaffirmed that it expected to achieve revenues of \$2.3 to \$2.4 billion for the year, and free cash flow of \$85 - \$95 million. Additionally, the Company lowered its earnings guidance to "the bottom end of the previously announced range of \$2.30 to \$2.50" per share.

4. On this news, shares of the Company's stock fell \$3.80 per share, or 11.5 percent, to close on December 16, 2005 at \$29.30 per share, on unusually heavy trading volume.

5. Then on March 23, 2006, the Company shocked investors when it reported a net loss of \$0.37 per share for the third quarter 2006 versus a loss of \$0.02 per share in the prior year's quarter. Additionally, due to the Company's admittedly disappointing quarterly results, increased expenses, and "greater seasonality," the Company significantly reduced its outlook for the remainder of the year, down to earnings of between \$1.70 and \$1.80 per share, and lowered its free cash flow expectation to between \$70 - \$80 million.

6. On this news, the Company's shares fell an additional \$3.38 per share, or 11.5 percent, to close on March 23, 2006 at \$26.04 per share, again on unusually heavy trading volume.

7. The Complaint alleges that, throughout the Class Period, defendants failed to disclose material adverse facts about the Company's financial well-being, business relationships, and prospects. Specifically, defendants failed to disclose or indicate the following: (1) that the Company had failed to timely write-down the value of certain print reference set assets; (2) that the Company had failed to adequately reserve for certain bad debts; (3) that, as a result of the above, the Company's financial statements were materially overstated; (4) that the Company's Educational Publishing division was experiencing declining results; (5) that the Company's United Kingdom operations would have to be reorganized due to poor performance; (6) that the Company lacked adequate internal and financial controls; and (7) that, as a result of the foregoing, the Company's statements about its financial well-being and future prospects were lacking in any reasonable basis when made.

8. As a result of defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's common stock, Plaintiff and other Class Members have suffered significant losses and damages.

JURISDICTION AND VENUE

9. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act, (15 U.S.C. §§ 78j(b) and 78t(a)), and Rule 10b-5 promulgated thereunder (17 C.F.R. § 240.10b-5).

10. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1331.

11. Venue is proper in this Judicial District pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b). Many of the acts and transactions alleged herein, including the preparation and dissemination of materially false and misleading

information, occurred in substantial part in this Judicial District. Additionally, Scholastic's principal executive office is located within this Judicial District.

12. In connection with the acts, conduct and other wrongs alleged in this Complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mails, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

13. Plaintiff, Paul Baicu, as set forth in the accompanying certification, incorporated by reference herein, purchased Scholastic common stock at artificially inflated prices during the Class Period and has been damaged thereby.

14. Defendant Scholastic is a Delaware corporation with its principal executive office located at 557 Broadway, New York, New York.

15. Defendant Richard Robinson ("Robinson") was, at all relevant times, the Company's President, Chief Executive Officer ("CEO"), and Chairman of the Board of Directors.

16. Defendant Mary A. Winston ("Winston") was, at all relevant times, the Company's Chief Financial Officer ("CFO").

17. Defendants Robinson and Winston are collectively referred to hereinafter as the "Individual Defendants." The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of Scholastic's reports to the SEC, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, i.e., the market. Each defendant was provided with copies of the Company's reports and press releases alleged herein to be misleading prior to, or shortly after, their issuance and had the ability and opportunity to prevent their issuance or cause them to be

corrected. Because of their positions and access to material non-public information available to them, each of these defendants knew that the adverse facts specified herein had not been disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein, as those statements were each "group-published" information, the result of the collective actions of the Individual Defendants.

SUBSTANTIVE ALLEGATIONS

Background

18. Scholastic is a global children's publishing, education and media company. The Company is a publisher and distributor of children's books, and a developer of educational technology products. Scholastic also creates educational and entertaining materials and products for use in school and at home, including magazines, children's reference and non-fiction materials, teacher materials, television programming, film, videos and toys.

Materially False and Misleading Statements Issued During the Class Period

19. On March 17, 2005, after the close of the market, the Company issued a press release entitled "Scholastic Announces Fiscal 2005 Third Quarter Results; Improved Operating Profits, on Modest Revenue Growth and Higher Margins." Therein, the Company, in relevant part, stated:

Scholastic Corporation (NASDAQ:SCHL) today announced its fiscal 2005 third quarter results.

For the quarter ended February 28, 2005, Scholastic generated an operating profit of \$5.8 million, compared to a loss of \$2.3 million in the year-ago period. Revenues were \$480.8 million, up 2% from \$472.0 million a year ago. Net loss in the third quarter improved to \$0.7 million or \$0.02 per diluted share, compared to a net loss of \$6.0 million or \$0.15 per diluted share in the prior year period. The

third quarter is typically Scholastic's second smallest revenue period.

"With continued focus on margins, we achieved higher profitability in all operating segments last quarter," commented Richard Robinson, Chairman, CEO and President of Scholastic. "Improved results in Trade drove growth in the Children's Book Publishing and Distribution segment, while profits also rose in International and in Educational Publishing."

Mr. Robinson added, "With Internet orders up nearly 20% this fiscal year and now representing more than 10% of Scholastic's revenues, I'm also very excited by the recent appointment of Seth Radwell as president of e-Scholastic. Seth's experience building new print and electronic businesses, most recently at Bookspan and Doubleday Interactive, will help us accelerate this momentum."

For fiscal 2005, the Company continues to expect earnings of between \$1.50 and \$1.70 per diluted share, excluding severance charges, on revenues of approximately \$2.1 billion, and is on plan to generate free cash flow of \$40 to \$50 million.

Third Quarter Results

Children's Book Publishing and Distribution. Operating profits in the segment rose 56% from the prior year period to \$16.5 million in the third quarter of fiscal 2005, driven by lower returns and higher gross sales in Trade Publishing. Segment revenues grew slightly to \$272.3 million, reflecting the improvement in Trade as well as in School Book Fairs, where better product availability and merchandising contributed to higher revenues per fair. This was partly offset by lower Continuity revenues, which declined as a result of the Company's strategy of focusing on more productive customers, and by a 1% decline in School Book Club revenues.

Educational Publishing. For the quarter, segment operating profits rose 25% to \$4.0 million and revenues increased 14% to \$79.3 million, relative to the prior year period. Higher revenues and profits reflected strong sales of educational technology, including Read 180(R), and higher circulation of classroom magazines. [Emphasis added.]

20. In response to this statement, the Company's shares increased \$2.42 per share, or 6.7 percent, to close on March 18, 2005 at \$38.62 per share, on heavy trading volume.

21. On July 20, 2005, the Company issued a press release entitled "Scholastic Announces Fiscal 2005 Results and Fiscal 2006 Outlook; Achieves Fiscal 2005 EPS, Margin and Cash Flow Goals; Strong Start to Fiscal 2006 with Harry Potter & the Half-Blood Prince." Therein, the Company, in relevant part, stated:

Scholastic Corporation (NASDAQ:SCHL) today announced its results for the fiscal 2005 fourth quarter and full year, and its outlook for fiscal 2006.

For the quarter ended May 31, 2005, net income increased to \$42.8 million or \$1.04 per diluted share, compared to net income of \$22.5 million or \$0.56 per diluted share in the prior year period. Revenues in the fourth quarter were \$592.1 million versus \$587.4 million in the prior year period. For the fiscal year, revenues were \$2,079.9 million and net income increased to \$64.3 million or \$1.58 per diluted share, including the previously announced charge of \$0.06 per diluted share for severance expenses. In the prior year, the Company had revenues of \$2,233.8 million and generated net income of \$57.8 million or \$1.44 per diluted share, which included items described in the notes to the income statement attached to this release that resulted in a net expense of \$0.33 per diluted share.

The Company generated Free Cash Flow (as defined) of \$87.7 million in fiscal 2005.

"We achieved our goals for profits and improved margins in fiscal 2005, while exceeding our target for Free Cash Flow. Impressive gains in Educational Publishing, improved results in International, a strengthening of our children's book businesses and disciplined financial management all contributed to these results," commented Richard Robinson, Chairman, CEO and President of Scholastic. "We're confident that the significant progress made in fiscal 2005, coupled with a strengthened management team, creates a solid foundation to expand margins and grow revenues in fiscal 2006 and beyond."

Mr. Robinson added, "Fiscal 2006 is off to a tremendous start with last weekend's phenomenally successful release of Harry Potter & the Half-Blood Prince. After selling a record breaking 6.9 million copies in the U.S. in the first 24 hours, our retailers continue to report very strong sales during the first week. We are extremely proud of Scholastic's role in helping make J.K. Rowling's brilliant book the largest book release in history."

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Fourth Quarter and Fiscal Year Results

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Children's Book Publishing and Distribution. Segment revenues in the quarter were \$333.4 million compared to \$348.5 million in the prior year period, with declines in Continuities resulting from the Company's strategy to focus on its most productive customers offsetting stronger revenues in Fairs and Trade. School Book Club revenues were down slightly in the quarter. Segment operating profits in the fourth quarter increased from the prior year period to \$51.9 million, primarily reflecting the year ago impact of Continuities-related charges.

For the fiscal year, segment revenues were \$1,152.5 million compared to \$1,358.6 million in the prior year and operating profits declined 11% to \$93.5 million. Anticipated declines in revenues from Harry Potter(R) (compared to the prior year which included the release of Harry Potter and the Order of the Phoenix) and lower revenues from Continuity programs were partially offset by growth in non-Harry Potter trade sales, including best-sellers like Dragon Rider, Charlie Bone and The Land of Elyon, and growth in School Book Fair revenues. Decreased segment profits reflected lower Harry Potter sales in fiscal 2005, partially offset by the impact of Continuities-related charges in fiscal 2004.

Educational Publishing. In the fourth quarter, segment revenues increased 5% to \$112.5 million and operating profits rose 38% to \$29.8 million, relative to the prior year period. Higher revenues and profits primarily reflected strong sales of educational technology, indicating Scholastic's success as a provider of solutions that help schools raise reading achievement. In fiscal 2005, segment revenues increased 10% to \$404.6 million and operating profits rose 40% to \$78.5 million compared to the year ago period. This growth was primarily due to a 40% increase in educational technology revenues, including READ 180(R), the leading intervention program for struggling readers, and Scholastic RED(R), an innovative online and in-person professional development program.

* * *

Fiscal 2006 Outlook

The Company expects total revenues of approximately \$2.3 - \$2.4 billion and earnings of \$2.30 - \$2.50 per diluted share based on the following outlook:

1. Revenue and profit growth in Children's Book Publishing and Distribution, reflecting significant sales of Harry Potter and the Half-Blood Prince primarily in the first quarter, as well as modest growth throughout the rest of the segment.

2. Growth across Educational Publishing, led by educational technology, which should continue to benefit margins.

3. Continued improvements in International and Media, Licensing and Advertising.

4. A focus on margin improvements and operating efficiencies, with continued attention to Free Cash Flow, which is targeted at \$85 - \$95 million. [Emphasis added.]

22. On September 22, 2005, the Company issued a press release entitled "Scholastic Reports First Quarter Results for Fiscal 2006; Strong Growth Driven by Successful Launch of Harry Potter and the Half-Blood Prince; Record Sales of Educational Technology." Therein, the Company, in relevant part, stated:

Scholastic Corporation (NASDAQ:SCHL) today reported its results for the fiscal 2006 first quarter ended August 31, 2005, and ***affirmed its outlook for fiscal 2006.***

Revenues in the first quarter were \$498.4 million versus \$323.7 million in the prior year period. Net loss for the quarter was \$21.2 million, or \$0.52 per share. This compares to a net loss of \$50.5 million, or \$1.28 per share, in the prior year period, which included a pre-tax charge of \$3.6 million, or \$0.06 per share, in severance costs relating to the reorganization of the Continuities business. Scholastic typically records a seasonal loss in its first quarter of the fiscal year, as most schools are not in session resulting in minimal revenues from school-based Book Fairs and Book Clubs.

Richard Robinson, Chairman, President and CEO of Scholastic, commented: "Record-breaking sales of Harry Potter and the Half-Blood Prince drove significantly higher results in Children's Book Publishing and Distribution and for the Company overall. Scholastic Education's strongest quarter ever also contributed to last quarter's improved results, with sales of

educational technology demonstrating the continued success of our reading solutions strategy. These achievements reinforce Scholastic's leading position as a partner with families and teachers, helping develop children's reading skills and love of books."

The Company also affirmed its fiscal 2006 outlook for revenues of \$2.3 to \$2.4 billion, earnings per diluted share of \$2.30 to \$2.50, and free cash flow of \$85 to \$95 million.

First Quarter Segment Analysis

Children's Book Publishing and Distribution. Segment revenues in the quarter were \$275.3 million, compared to \$121.8 million in the prior year period. Harry Potter revenue increased to approximately \$185 million from about \$10 million in last year's first quarter, reflecting the successful launch of Harry Potter and the Half-Blood Prince, as well as higher sales of Harry Potter backlist titles. Partially offsetting this increase was a decline in Continuities revenue resulting from the Company's strategy to focus on its most productive customers. The resulting operating loss for the segment was \$19.7 million, compared to an operating loss of \$64.0 million in the prior year period.

Educational Publishing. In the first quarter, segment revenues increased 9% to \$128.3 million from \$118.2 million in the prior year period. Operating profits rose 23% to \$27.5 million relative to the prior year period. Higher revenues and profits primarily reflected a 32% increase in sales of educational technology over the prior year, benefiting from the launch of the Enterprise Edition of the READ 180(R) reading intervention program. [Emphasis added.]

23. The statements contained in ¶¶ 19, 21 and 22 were materially false and misleading when made because Defendants failed to disclose or indicate the following: (1) that the Company had failed to timely write-down the value of certain print reference set assets; (2) that the Company had failed to adequately reserve for certain bad debts; (3) that, as a result of the above, the Company's financial statements were materially overstated; (4) that the Company's Educational Publishing division was experiencing declining results; (5) that the Company's United Kingdom operations would have to be reorganized due to poor performance; (6) that the

Company lacked adequate internal and financial controls; and (7) that, as a result of the foregoing, the Company's statements about its financial well-being and future prospects were lacking in any reasonable basis when made.

The Truth Begins to Emerge

24. On December 16, 2005, the Company issued a press release entitled "Scholastic Announces Fiscal 2006 Second Quarter Results." Therein, the Company, in relevant part, stated:

Scholastic Corporation (NASDAQ:SCHL) today announced its fiscal 2006 second quarter results.

For the quarter ended November 30, 2005, the Company reported revenues of \$696.7 million, up 2% from \$683.3 million in the prior year period. Net income was \$66.9 million, down 8% from \$72.5 million, and earnings per diluted share were \$1.59 versus \$1.80 a year ago.

* * *

"The impact of hurricanes on the Company, challenges in School Book Clubs and Continuities, and investments to restructure our business in the United Kingdom were all factors contributing to lower profits in the second quarter," commented Richard Robinson, Chairman, CEO and President of Scholastic. "Our business also showed many strengths, especially in School Book Fairs, Trade and educational technology sales. Significant free cash flow in the quarter also strengthened our balance sheet."

Mr. Robinson added, "Responding to the challenges we faced in the second quarter, Scholastic's management team is now implementing plans to improve performance in the second half of the year, particularly in the important fourth quarter. We are accelerating the U.K. turn-around efforts, streamlining Club promotions, booking new fairs, introducing new Continuity programs, trimming marketing costs and reducing overhead. Notwithstanding the challenges, we believe we will attain our financial goals for the year, based on these actions and strong first quarter performance. We expect to achieve revenues for the year of \$2.3 to \$2.4 billion, free cash flow of \$85 to \$95 million and earnings at the bottom end of the previously announced range of \$2.30 to \$2.50 per diluted share."

* * *

Second Quarter Results

Children's Book Publishing and Distribution. Segment revenues in the second quarter of fiscal 2006 were \$424.2 million, down slightly from \$425.0 million in the prior year period. Trade revenue rose 11%, driven by strong sales of Harry Potter backlist titles. School Book Fair revenue rose 7% on higher revenue per fair. School Book Club revenue was down 3% from fewer orders, partially offset by higher revenue per order. Continuities revenue decreased 19%, as a result of the Company's continued strategy of focusing on its most productive customers. Profit in the segment declined 3% to \$88.6 million from \$90.9 million, reflecting the negative impact across the Company of hurricane-related school disruptions and higher fuel prices, as well as lower revenue and profit in the Clubs and Continuities businesses.

Educational Publishing. Segment revenue rose 5% to \$99.2 million compared to \$94.5 million in the prior year period, driven by a more than 25% increase in revenues from educational technology sales, partially offset by a decline in classroom magazine revenue from last year's election-related increases. Profit in the segment rose slightly to \$21.6 million from \$21.5 million a year ago, with higher technology sales more than offsetting lower library and classroom magazine results.

* * *

First Half Results

Net income for the first half of fiscal 2006 was \$45.7 million or \$1.10 per diluted share, up from \$22.0 million or \$0.55 per diluted share in the first half of fiscal 2005, which included \$3.6 million or \$0.06 per diluted share in severance charges related to a reorganization of the Continuities business. Revenues in the period rose 19% to \$1,195.1 million from \$1,007.0 million in the first half of fiscal 2005. The year over year difference in revenue and profitability primarily reflects higher Harry Potter revenues and educational technology sales, partially offset by declines in Clubs and International results. [Emphasis added.]

25. On this news, the Company's shares fell \$3.80 per share, or 11.5 percent, to close on December 16, 2005 at \$29.30 per share, on unusually heavy trading volume.

26. Then on March 23, 2006, the Company issued a press release entitled "Scholastic

Announces Fiscal 2006 Third Quarter Results." Therein, the Company, in relevant part, stated:

Scholastic Corporation (NASDAQ: SCHL) today announced its fiscal 2006 third quarter results.

For the quarter ended February 28, 2006, the Company reported revenues of \$487.7 million, up 1% from \$480.8 million, and ***a seasonal net loss of \$15.5 million, compared to \$0.8 million in the prior year period. Net loss per diluted share was \$0.37 versus \$0.02 a year ago.*** The fiscal third quarter is typically Scholastic's second smallest revenue quarter.

"Our third quarter was disappointing, and based on our review of these results and their impact on the fourth quarter, we are reducing our outlook for the fiscal year," commented Richard Robinson, Chairman, CEO and President of Scholastic. "Promotion expenses in School Book Clubs continued to be higher due to the volume of direct mailings required as more customers than anticipated migrated to the core clubs in response to promotions. In School Book Fairs, staffing expenses increased during the quarter, in anticipation of fourth quarter fair bookings. Lastly, results in Educational Publishing were affected by lower educational technology revenues, reflecting greater seasonality in that business and a large district sale in the prior-year period."

Mr. Robinson continued, "Next year, based on customer reaction to thorough market tests conducted in School Book Clubs, we will focus exclusively on Scholastic branded clubs and discontinue Troll(R) and Trumpet(R), two smaller, less efficient clubs. We believe this focus on core clubs will substantially reduce overhead, promotion and fulfillment expense and increase profits. We also remain confident about growth opportunities for Scholastic Education, and for educational technology, where sales are up 18% this year and we have a strong pipeline of future sales prospects."

Scholastic has accelerated its company-wide plans to reduce overhead, and it has already identified more than \$40 million in annualized savings from streamlining centralized functions and pursuing outsourcing opportunities, which it expects to realize fully over the next two years, with a significant amount achieved in fiscal 2007. Additionally, the Company has outsourced all remaining outbound telemarketing in Continuities, closing a call center and eliminating 75 staff positions.

Outlook

Given lower third quarter results and a revised outlook for the fourth quarter, Scholastic now expects full year earnings between \$1.70 and \$1.80 per diluted share, including approximately \$0.15 per diluted share of expected severance expense, on revenues of approximately \$2.3 billion. Free cash flow for the fiscal year is now expected to be between \$70 and \$80 million. [Emphasis added.]

27. On this news, the Company's shares fell an additional \$3.38 per share, or 11.5 percent, to close on March 23, 2006 at \$26.04 per share, on unusually heavy trading volume.

28. Also on March 23, 2006, *Bloomberg* reported that the Company's credit rating "was cut to junk by Standard & Poor's, which said the outlook for the New York-based publisher is negative." Standard & Poor's stated that the Company's credit rating was cut to BB+ from BBB-, the lowest investment grade.

POST CLASS PERIOD DISCLOSURE

29. On July 20, 2006, the Company issued a press release entitled "Scholastic Announces Fiscal 2006 Results and Fiscal 2007 Outlook." Therein, the Company, in relevant part, stated:

Scholastic Corporation (NASDAQ:SCHL) today announced its results for the fiscal 2006 fourth quarter and full year and its outlook for fiscal 2007.

For the fiscal year ended May 31, 2006, revenue increased 10% to \$2,283.8 million, from \$2,079.9 million in the prior year. Net income increased to \$68.6 million or \$1.66 per diluted share, from \$64.3 million or \$1.58 per diluted share in the prior year. For the fiscal fourth quarter, revenue was \$601.0 million versus \$592.1 million, and net income was \$38.4 million or \$0.91 per diluted share, compared to \$43.1 million or \$1.03 per diluted share in the prior year period. *Current year results include costs associated with the write-down of certain print reference set assets and with the bankruptcy of a customer, incurred in the Educational Publishing segment, totaling \$0.07 and \$0.09 per diluted share in the fourth quarter and full year, respectively.*

* * *

Richard Robinson, Chairman, CEO and President of Scholastic, commented, "Challenges in fiscal 2006 included higher operating costs and softer than expected revenues, particularly in School Book Clubs, as well as increased costs to support growth in Educational Publishing and to carry out our turn-around plan in the U.K. We believe we will see stronger results in these businesses in fiscal 2007. Meanwhile, other areas of the business exceeded expectations, with excellent results in Trade Publishing following the launch of Harry Potter and the Half-Blood Prince, and continued vitality in other best-selling series. We also had healthy growth in School Book Fairs.

"While our top near-term priority is to reduce costs, we are optimistic about the longer-term growth prospects for the Company. We are leveraging our publishing strength and global scale in children's books, building on the leading position of READ 180(R) to develop our educational technology business, growing internationally and further expanding on our position as the world's third largest Internet bookseller to reach more parents, children and educators with books and learning materials," he continued.

The Company's on-going actions to control costs and improve margins include (1) reducing overhead spending by \$40 million annually by fiscal 2008; (2) simplifying School Book Clubs by reducing the number of club offers and the level of promotion spending; (3) using timely sales information to further improve product selection while streamlining operations in School Book Fairs; and (4) more tightly integrating editorial and marketing functions across its children's book channels. [Emphasis added.]

PLAINTIFF'S CLASS ACTION ALLEGATIONS

30. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased the common stock of Scholastic between March 18, 2005 and March 23, 2006, inclusive (the "Class Period"), and who were damaged thereby. Excluded from the Class are defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

31. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Scholastic's common stock was actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Scholastic or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

32. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

33. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

34. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- (a) whether the federal securities laws were violated by defendants' acts as alleged herein;
- (b) whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of Scholastic; and
- (c) to what extent the members of the Class have sustained damages and the proper measure of damages.

35. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

UNDISCLOSED ADVERSE FACTS

36. The market for Scholastic's common stock was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, Scholastic's common stock traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired Scholastic's common stock relying upon the integrity of the market price of Scholastic's common stock and market information relating to Scholastic, and have been damaged thereby.

37. During the Class Period, defendants materially misled the investing public, thereby inflating the price of Scholastic's common stock, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

38. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, defendants made or caused to be made a series of materially false or misleading

statements about Scholastic's financial well-being and prospects. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of Scholastic and its financial well-being and prospects, thus causing the Company's common stock to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's common stock at artificially inflated prices, thus causing the damages complained of herein.

LOSS CAUSATION

39. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class.

40. During the Class Period, Plaintiff and the Class purchased common stock of Scholastic at artificially inflated prices and were damaged thereby. The price of Scholastic's common stock significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses.

SCIENTER ALLEGATIONS

41. As alleged herein, defendants acted with scienter in that defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, defendants, by virtue of their receipt of information reflecting the true facts regarding Scholastic, their control over, and/or

receipt and/or modification of Scholastic's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning Scholastic, participated in the fraudulent scheme alleged herein.

42. Additionally, during the Class Period, and with the Company's stock trading at artificially inflated prices, Company insiders sold 632,454 shares of the Company's stock for gross proceeds of \$22,948,001, including over \$6.2 million in gross proceeds received by Defendant Robinson. This trading by Company insiders is evidenced by the following chart:

Date of Trade	Inside Trader	Number of Shares	Price per Share	Gross Proceeds
October 24, 2005	Deull, Charles B.	49,938	\$32.49 - \$32.56	\$1,624,000
October 21, 2005	Deull, Charles B.	5,000	\$32.66	\$163,299
October 3, 2005	Ford, Beth	9,310	\$37.31	\$347,356
October 3, 2005	Deull, Charles B.	21,400	\$37.45 - 37.50	\$937,000
September 28, 2005	Ford, Beth	5,690	\$37.28	\$212,123
September 20, 2005	Forte, Deborah A.	1,480	\$36.92	\$54,641
September 1, 2005	Roome, Hugh R.	1,988	\$36.67	\$72,899
August 11, 2005	Robinson, Richard	20,000	\$36.37	\$727,400
August 10, 2005	Robinson, Richard	10,000	\$36.25	\$362,500
August 1, 2005	Harris, Charles	5,000	\$37.25	\$186,250
July 29, 2005	Harris, Charles	25,000	\$37.04 - 37.45	\$930,100
August 2, 2005	Robinson, Richard	30,000	\$37.00 - 37.18	\$1,112,700
July 27, 2005	Robinson, Richard	60,200	\$36.76 - 36.91	\$2,217,462
May 2, 2005	Forte, Deborah A.	47,318	\$35.00 - 35.01	\$1,656,515
April 19, 2005	Jemison, Mae	2,000	\$34.73	\$69,460
April 19, 2005	Holland, Larry	2,173	\$35.71	\$77,598
April 15, 2005	Forte, Deborah A.	6,300	\$35.05	\$220,815
April 15, 2005	Marcus, Barbara	6,456	\$34.49	\$222,667
April 14, 2005	Robinson, Richard	4,300	\$35.75	\$153,725

April 13, 2005	Robinson, Richard	45,715	\$35.51 - 36.41	\$1,646,137
April 13, 2005	Holland, Larry	8,097	\$35.52 - 35.76	\$288,879
April 12, 2005	Holland, Larry	18,000	\$36.36 - 36.91	\$661,020
April 12, 2005	Marcus, Barbara	544	\$37.00	\$20,128
April 11, 2005	Holland, Larry	1,100	\$37.00	\$40,700
April 8, 2005	Holland, Larry	3,000	\$37.00	\$111,000
April 8, 2005	Forte, Deborah A.	2,400	\$37.01	\$88,824
April 7, 2005	Forte, Deborah A.	7,300	\$37.00	\$270,100
April 7, 2005	Holland, Larry	15,000	\$36.35 - 37.00	\$548,500
April 6, 2005	Forte, Deborah A.	3,082	\$37.00	\$114,034
April 6, 2005	Marcus, Barbara	5,000	\$37.00	\$185,000
April 6, 2005	Holland, Larry	20,000	\$36.81 - 36.92	\$738,247
April 4, 2005	Holland, Larry	60,300	\$36.19 - 37.35	\$2,205,632
March 31, 2005	Holland, Larry	6,095	\$37.00 - 37.05	\$225,563
March 30, 2005	Marcus, Barbara	5,000	\$37.25 - 37.27	\$186,310
March 30, 2005	Holland, Larry	36,000	\$36.75 - 37.52	\$1,339,550
March 29, 2005	Forte, Deborah A.	5,000	\$37.01	\$185,050
March 29, 2005	Holland, Larry	28,295	\$37.04 - 37.29	\$1,050,484
March 29, 2005	Marcus, Barbara	5,000	\$37.05	\$185,250
March 28, 2005	Maloney, Karen	4,000	\$37.50	\$150,000
March 24, 2005	Holland, Larry	1,973	\$37.75	\$74,481
March 23, 2005	Holland, Larry	22,000	\$37.21 - 37.61	\$752,682
March 23, 2005	Forte, Deborah A.	5,000	\$37.15	\$185,750
March 22, 2005	Forte, Deborah A.	3,000	\$38.00	\$114,000
March 22, 2005	Holland, Larry	5,000	\$37.64	\$118,200
March 22, 2005	Marcus, Barbara	3,000	\$37.99	\$113,970
	TOTAL:	632,454		\$22,948,001
		Shares		Gross Proceeds

**Applicability of Presumption of Reliance:
Fraud On The Market Doctrine**

43. At all relevant times, the market for Scholastic's common stock was an efficient market for the following reasons, among others:

- (a) Scholastic's stock met the requirements for listing, and was listed and actively traded on the NASDAQ, a highly efficient and automated market;
- (b) As a regulated issuer, Scholastic filed periodic public reports with the SEC and the NASDAQ;
- (c) Scholastic regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and
- (d) Scholastic was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

44. As a result of the foregoing, the market for Scholastic's common stock promptly digested current information regarding Scholastic from all publicly-available sources and reflected such information in Scholastic's stock price. Under these circumstances, all purchasers of Scholastic common stock during the Class Period suffered similar injury through their purchase of Scholastic common stock at artificially inflated prices and a presumption of reliance applies.

NO SAFE HARBOR

45. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Scholastic who knew that those statements were false when made.

FIRST CLAIM
Violation of Section 10(b) of
The Exchange Act and Rule 10b-5
Promulgated Thereunder Against All Defendants

46. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

47. During the Class Period, defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase Scholastic common stock at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

48. Defendants (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's common stock in an effort to maintain artificially high market prices for Scholastic's common stock in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

49. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about Scholastic's financial well-being, business relationships, and prospects, as specified herein.

50. These defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of Scholastic's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about Scholastic and its business operations and future prospects in light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of Scholastic common stock during the Class Period.

51. Each of the Individual Defendants' primary liability, and controlling person

liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of his responsibilities and activities as a senior officer and/or director of the Company was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of, and had access to, other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

52. The defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing Scholastic's financial well-being and prospects from the investing public and supporting the artificially inflated price of its common stock. As demonstrated by defendants' overstatements and misstatements of the Company's financial well-being and prospects throughout the Class Period, defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

53. As a result of the dissemination of the materially false and misleading information

and failure to disclose material facts, as set forth above, the market price of Scholastic's common stock was artificially inflated during the Class Period. In ignorance of the fact that market prices of Scholastic's common stock were artificially inflated, and relying directly or indirectly on the false and misleading statements made by defendants, or upon the integrity of the market in which the common stock trades, and/or in the absence of material adverse information that was known to or recklessly disregarded by defendants, but not disclosed in public statements by defendants during the Class Period, Plaintiff and the other members of the Class acquired Scholastic's common stock during the Class Period at artificially high prices and were damaged thereby.

54. At the time of said misrepresentations and omissions, Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known the truth regarding the problems that Scholastic was experiencing, which were not disclosed by defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their Scholastic common stock, or, if they had acquired such common stock during the Class Period, they would not have done so at the artificially inflated prices which they paid.

55. By virtue of the foregoing, defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

56. As a direct and proximate result of defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's common stock during the Class Period.

SECOND CLAIM
Violation of Section 20(a) of
The Exchange Act Against the Individual Defendants

57. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

58. The Individual Defendants acted as controlling persons of Scholastic within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contends are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

59. In particular, each of these defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

60. As set forth above, Scholastic and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of

the Exchange Act. As a direct and proximate result of defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's common stock during the Class Period.

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

- (a) Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;
- (b) Awarding compensatory damages in favor of Plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;
- (c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and
- (d) Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: September 21, 2007

Respectfully submitted,

BRODSKY & SMITH, LLC

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